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1401 H Street, N.W.
Suite 1020
Washington, D.C. 20005
Office 202/326-3810



Celia Nogales
Director - Federal Relations

March 27, 1998

EX PARTE OR LATE FILED

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: **Ex Parte Filing**
Federal-State Joint Board on Universal Service
Report to Congress
CC Docket 96-45/and DA 98-2

Dear Ms. Salas:

On Thursday, March 26, 1998, Mr. Ed Wynn, Mr. Dick Kolb, Mr. Harry Albright and I met with Ms. Lisa Gelb and Ms. Pam Gallant of the Universal Services Branch to discuss Ameritech's position regarding the high cost fund federal support mechanism. The attached material was used as part of our discussion.

Sincerely,

A handwritten signature in cursive script, appearing to read "Celia Nogales".

Attachment

cc: L. Gelb
P. Gallant

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Ameritech Position

Ameritech supports a 25/75 federal/state split of responsibility for high cost funding

- historic precedent -- 25/75 split consistent with separations view
- big increase already -- 25/75 split with BCPM version 3.0 moves high support from current \$1.7B to \$2.9B
- rewards pro-competitive states/protects consumer's rates - 25/75 proposal recognizes that individual states are at widely varying stages of having rates reordered for fully competitive market -- maintaining a small pool rewards states which have undertaken rebalancing -- increasing pool size penalizes end users in those states
- incent investment and competition -- 25/75 proposal encourages states to get subsidies out of their rates by rebalancing
- incent investment and competition -- 25/75 proposal keeps subsidies relatively low encouraging a rationalizing of local rates thereby incenting economically efficient entry and competition for the full spectrum of customers

Comparison of Various Federal High Cost Fund Proposals

Does the Plan:	FCC Plan 25% Interstate	Ad Hoc Proposal	US West Plan \$50 Interstate Benchmark	FCC Plan 100% Interstate	Debate
Maintain existing level of explicit Federal Support?	Yes	Yes	Yes	Yes	<p>1. Local Rate increases will be necessary if Federal Plan is "insufficient."</p> <p>2. Local Rate increases will be necessary because Federal Plan is linked to Access Charge decreases.</p> <ul style="list-style-type: none"> Some local rates are too low and should be raised to some minimum benchmark before high cost support is provided. Local rates have been raised in some states without adverse impacts (CA, MA, IL, MI) It is bad public policy to continue subsidizing artificially low local rates. Rationalization of local and toll rates (via access) will promote residential facilities-based competition without necessarily raising the consumer's total bill.
Encourage states to fully reform existing support mechanisms and continue collecting existing level of implicit support from within state?	Yes	No	No	No	
Minimize the amount of Federal support?	Yes	Yes	No	No	
Collect contributions in a competitively neutral manner?	Yes	Yes	Yes	Yes	
Encourage efficient investment?	Yes	No	No	No	
Minimize "windfalls" to states/companies?	Yes	No	No	No	
Disburse funds directly to carriers?	Yes	No	Yes	Yes	

Summary

- Federal/State commissions have a joint responsibility to make implicit support mechanisms explicit
- A smaller federal high cost fund will incent state action to rebalance rate structures
- Rebalanced rate structure will act to minimize the size of intrastate high cost funds, and permit the states to focus on highly targeted and economically efficient funds to deal with affordability issues
- Rebalanced, rate structures will incent more broadbased efficient competition in all markets including residence
- Rebalanced rates will enhance the overall consumer welfare
- Rebalanced rates will promote economically efficient investment and entry

Key Points

- Recognize existing jurisdictional split (25/75); don't move state responsibility to federal jurisdiction and vice versa
- Incent State Commissions to set rational cost-based rates (rebalancing)
- Incent State Commissions to identify affordability levels after rebalancing and develop a targeted solution
- Focus explicit support to handle highly targeted needs only
- Collect support from ALL telecommunications carriers in a competitively neutral manner

Some Companies in Wisconsin have relatively high local rates but low access rates:

Company	Residential Local Rate (incl. Touchtone) \$/Line/Month	Terminating Intrastate Access Rate \$/Minute	Current Annual Federal High Cost Support \$/Loop/Month
Ameritech-Wisconsin	\$11.88	\$0.02	\$0.00
GTE	\$16.66	\$0.02	\$0.08

While others have low local rates combined with high access rates:

Company	Residential Local Rate (incl. Touchtone) \$/Line/Month	Terminating Intrastate Access Rate \$/Minute	Current Annual Federal High Cost Support \$/Loop/Month
Amery	\$7.37	\$0.05	\$ 7.30
Farmers	\$6.80	\$0.07	\$ 6.59
Nelson Telephone Coop.	\$7.65	\$0.07	\$ 7.70
Mid Plains	\$7.90	\$0.04	\$ 4.09
Bergen	\$7.85	\$0.06	\$41.31
Clear Lake	\$7.25	\$0.07	\$ 9.01

In addition, current high cost funding has allowed some companies the ability to provide services which go far beyond the definition of "universal" service.

Company	Current amount of Federal High Cost Support	Services offered
Valley Telephone (Texas)	\$6.2 Million annually \$92/loop/month	<ul style="list-style-type: none"> • High speed Digital Subscriber Line (xDSL) • All fiber optic digital network
Roanoke & Botetourt (Virginia)	\$1.5 Million annually \$14/loop/month	<ul style="list-style-type: none"> • High speed wireless access to Internet • ISDN • MMDS based wireless cable